

 **Hershey Foods Corporation**

1981 Annual Report



HERSHEY'S

Reeses



CORY



San Giorgio

SKINNER

Friendly

1981 Annual Report



Hershey Foods Corporation

is a major producer of chocolate and confectionery products; operates a chain of restaurants; is a major producer of pasta products; and operates an office coffee service plan.

Hershey has chocolate and cocoa producing facilities in Hershey, Pa.; Oakdale, Calif.; and Smiths Falls, Ontario, Canada. In addition, the chocolate and confectionery segment includes the H. B. Reese Candy Company with its production facility in Hershey, Pa., and Y & S Candies, a manufacturer of licorice-type candies, with plants in Lancaster, Pa.; Moline, Ill.; Farmington, N.M.; and Montreal, Quebec, Canada.

Friendly Ice Cream Corporation, headquartered in Wilbraham, Mass., operates approximately 625 restaurants located primarily in the Northeast and Midwest, which serve high quality, moderately-priced menu items and specialize in ice cream, sandwiches, and informal meals. The pasta division, with its San Giorgio, Skinner, Delmonico and P & R brands, has manufacturing facilities in Lebanon, Pa.; Omaha, Nebr.; and Louisville, Ky. Cory Food Services, Inc. is a Chicago-based provider of one of the nation's largest office coffee service plans.

The Corporation's principal executive offices are in Hershey, Pa. The Corporation had 12,450 full-time employees and 16,817 stockholders on December 31, 1981.

EXECUTIVE OFFICES

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Hershey, Pa. 17033
Phone: (717) 534-4000

TRANSFER AGENT AND REGISTRAR

Manufacturers Hanover Trust Company
4 New York Plaza
New York, N.Y. 10015

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen & Co.
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New York, N.Y. 10105

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William Lehr, Jr., Secretary and
Treasurer
100 Mansion Road East
Hershey, Pa. 17033
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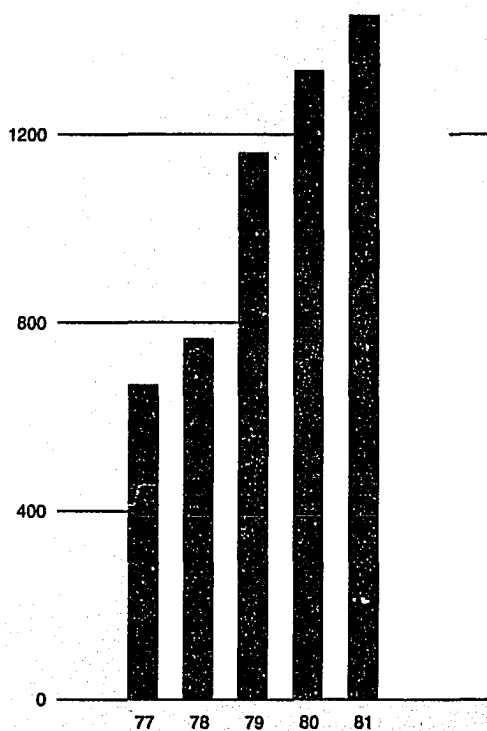
(in thousands of dollars except shares and per share amounts)

	1981	1980	% Change
Net sales	\$ 1,451,151	\$ 1,335,289	+ 9
Net income	\$ 80,362	\$ 62,055	+30
Net income per common share	\$ 5.61	\$ 4.38	+28
Cash dividends per common share	\$ 1.75	\$ 1.50	+17
Cash dividends paid	\$ 25,504	\$ 21,240	+20
Capital additions	\$ 91,673	\$ 59,029	+55
Stockholders' equity	\$ 469,664	\$ 361,550	+30
Equity per common share at year-end	\$ 29.97	\$ 25.53	+17
Outstanding common shares at year-end	15,668,556	14,159,854	+11
Weighted average shares outstanding	14,321,716	14,159,801	+ 1

NET SALES

(dollars in millions)

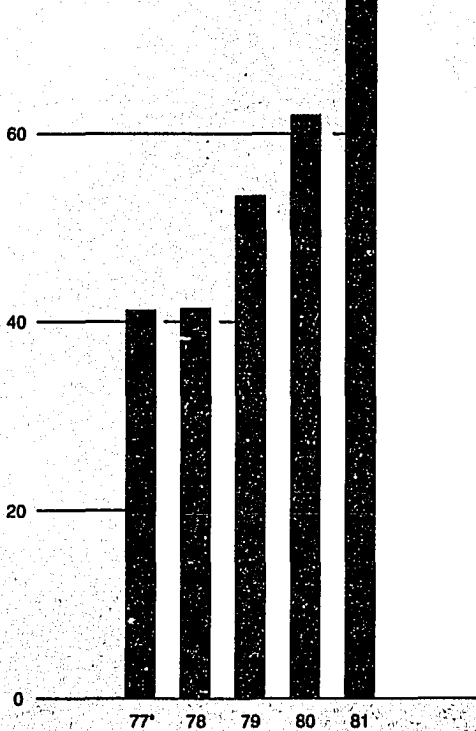
1600



NET INCOME

(dollars in millions)

80



* Includes \$5.3 million gain on the sale of almond ranches.

Letter to Stockholders

We are pleased to report that 1981 was another outstanding year for Hershey Foods Corporation. The Company achieved excellent operating results and significantly strengthened its financial base.

These accomplishments are especially noteworthy in light of the trying economic situation of 1981. During the year, the general economy was marked by continued high inflation, high interest rates and slow growth, as well as the uncertainties associated with economic policy changes of fundamental and historic proportions. Despite this, your Company achieved record net sales, record net income, record earnings per share and record dividends per share. Each segment of the business contributed positively to this exceptional performance.

Of particular note was the outstanding performance of Hershey Chocolate Company. Propelled by solid growth in unit sales and increased operating margins, it significantly contributed to net income growth. The increased margins, which came primarily from volume and manufacturing efficiencies, as well as improved productivity, were achieved in spite of a substantial increase in advertising and other promotional support for its products. The crowning feature of this outstanding performance was the achievement of one billion dollars in sales of chocolate and confectionery products in 1981.

Friendly Ice Cream Corporation achieved healthy sales and earnings increases despite a softening in the "away-from-home eating" industry during the latter part of the year. Friendly also experienced improved operating margins.

San Giorgio-Skinner achieved record sales and operating income in 1981, while Cory, with a new and revitalized management team, continues to be one of the largest purveyors of coffee services in the United States and Canada; and both made important contributions to the sales and earnings record of the Company.

STOCK OFFERING

In November the Company sold 1,500,000 additional shares of common stock, the

net proceeds of which totalled \$53,145,000. These funds served to improve our liquidity and enhance our long-term financial capability and flexibility for growth and diversification.

CAPITAL ADDITIONS

We continue to see promising opportunities for growth in our existing businesses and have planned a program of significant investment to capitalize on these opportunities. In 1981, our capital additions were approximately \$91,673,000. In 1982, we expect capital additions to exceed this level somewhat.

The new confectionery plant under construction in Virginia is our major capital project at this time. The cost of land, building and equipment is expected to be \$86,000,000; additional equipment, if required, could boost the cost of this project by as much as \$30,000,000. Construction is proceeding on schedule and on budget, and we expect to have the new plant in operation by October 1982.

DIVIDEND

Because of the long-term, favorable prospects of the Company and its strong financial condition, the annual dividend rate was increased 18.75% in 1981 to an annual rate of \$1.90 per share of common stock. This represented the seventh consecutive annual increase in dividends. It is especially gratifying to note that our dividend growth in recent years has exceeded the rate of inflation.

NATIONAL ECONOMIC POLICY

While we are very hopeful that the Reagan Administration's dramatic moves to revitalize the economy will, in fact, restore price stability, increase employment, and spur new economic growth while curbing inflation, we believe it important to exercise some degree of patience with the Administration's program.

This country has seen several decades of economic policies which contributed to higher and higher rates of inflation. With such a significant shift in the direction of economic policy, we believe it will take time to achieve economic stability.



William E. C. Dearden,
Vice Chairman of the Board
and Chief Executive Officer;
Harold S. Mohler,
Chairman of the Board; and
Richard A. Zimmerman,
President and Chief
Operating Officer.

Until that time, the country will remain in a period of economic uncertainty, and such uncertainty, of course, will present a stern test for our management and our businesses.

COMPETITION

At whatever pace this nation's economic rejuvenation takes place, competition will surely continue to be a key challenge for all of our operating units. Our response to this challenge will be predicated on the fundamental principle upon which this corporation was built—providing the best consumer value with top quality in every product we manufacture and every service we provide.

Thus, we shall continue to build upon our traditional products and services while developing new initiatives which hold the best promise for further growth and diversification. We shall continue to advertise and promote aggressively to reinforce consumer understanding of the quality and value we offer.

BOARD CHANGE

Upon reaching age 65, on April 1, 1982, Robert J. Gaudrault, Chairman of the Board of Friendly Ice Cream Corporation and a member of the Board of Directors of Hershey Foods Corporation, will retire from both responsibilities. Bob's contribution to the smooth integration of Friendly as a major segment of the

Hershey organization was significant, and we are most appreciative of his many efforts in behalf of the Company.

LOOKING AHEAD

We look to the future knowing that the Hershey family of products and services has been enjoyed by Americans for generations and confident that today's consumers are as satisfied with their quality and value as were earlier generations of consumers. It is that franchise upon which we shall continue to build.

In 1982, some of the challenges will be familiar and others will be new and unique, but we are confident that, as a team, we will successfully cope with them in a thoroughly effective, professional manner.

We recognize and applaud the dedication and hard work of all our employees, since they represent the single most valuable resource of the Company. While 1981 was fraught with challenges, "Hershey people" turned them into opportunities. As two of our primary goals we continue to place high priority on providing our employees at all levels with opportunities for continuing employment and personal development, and providing you, our stockholders, with the solid, steady growth you seek from your investment in Hershey Foods Corporation.

H. S. Mohler
Chairman of the Board

W. E. C. Dearden
Vice Chairman of the Board
and Chief Executive Officer

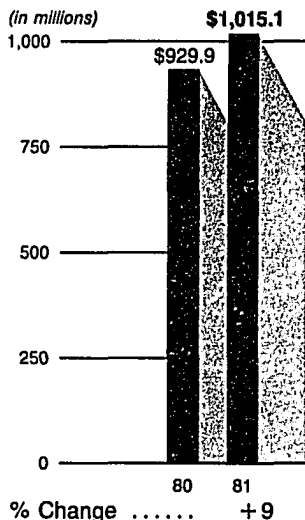
R. A. Zimmerman
President and
Chief Operating Officer

March 11, 1982

Chocolate and Confectionery

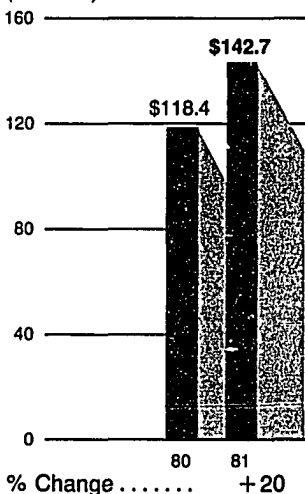
NET SALES

(in millions)



OPERATING INCOME

(in millions)



HERSHEY CHOCOLATE COMPANY

In 1981, products manufactured by Hershey Chocolate Company, including exports, generated sales in excess of one billion dollars, and the Company again achieved record levels of operating income. Volume increases in existing products made a significant contribution to the sales gain. New product introductions, national rollouts and selected price increases also contributed to the growth. The increase in operating income was due primarily to higher sales, the resulting economies of scale, and improved productivity.

These milestones were achieved in a year characterized by turbulent and intense competition in the U.S. confectionery industry. Throughout this period, the strong consumer franchise of the Company's brands was instrumental in protecting the sales, profitability, and market share of the Company. This franchise has been built by years of devotion to quality and value, and by investment in customer relations and consumer awareness. Similar programs to insure the health of this franchise will continue to be emphasized in the future.

Traditional HERSHEY'S/REESE'S products were the chief contributors to the sales increases. In late 1980, a line of larger, thicker bars was introduced nationally under the BIG BLOCK trademark. In 1981, this line of five items continued its successful sales trend and achieved volume levels substantially in excess of 1980, its year of introduction, and it also exceeded the Company's expectations.

HERSHEY'S KISSES continued to respond to an advertising program implemented nationally in late 1978. This brand's sales volume has doubled in three and one-half years. Based on a

successful market test, the advertising program for MR. GOODBAR was significantly expanded in the fall of 1981, and this effort is expected to further stimulate the sales of this long-established brand.

Growth in the Company's grocery product line did not keep pace with the confectionery category primarily as a result of intensified competition in the market place.

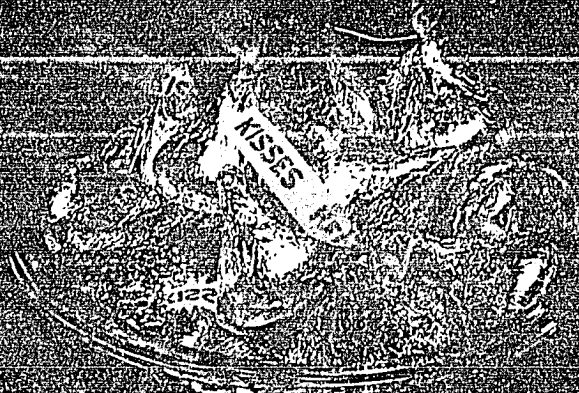
Over the last few years, the Company has entered several new market areas. The success of these initiatives resulted in sizeable contributions to 1981's growth. One of the new areas relates to the acquisition of Y & S Candies in late 1977. Sales have doubled over that period, and Y & S has become the leading producer of licorice-type candy in the United States.

In 1979, a group was formed in the Hershey Chocolate Company to concentrate in areas other than retail sales of mass-marketed, branded products. These areas include gift items, fund raisers, and bulk sales to industrial and institutional users. The results achieved by this special markets group have exceeded the Company's projections, and sales have doubled in less than three years.

In 1981, several products contributed to this gain: the half-pound GIANT KISS doubled in sales and is now one of the leading confectionery gift items in the industry; sales increases for GOLDEN ALMOND one- and two-pound gift boxes have been augmented by sales of the single GOLDEN ALMOND bar at a rate twice the 1980 level.

In the new products area, WHATCHA-MACALLIT completed its first full year in national distribution, and REESE'S PIECES achieved national distribution during 1981. Both items are major confectionery brands. Market introductions of both SKOR, a chocolate-toffee bar under license from AB Marabou, and FROSTIN', a line of ready-to-spread cake frostings, have met with enthusiastic trade and consumer acceptance in test markets. The Company's commitment to new products as a source of growth continues to be a top priority, and plans for the future reflect that commitment.



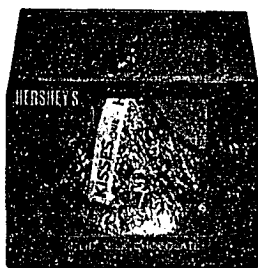


Reese's

PEANUT BUTTER CUPS

HERSHEY'S

34114-01000-011



*Above: new products of Hershey Chocolate Company.
Below: two popular items of Hershey Canada Inc.*



To accommodate the new product growth, the Company has under construction a new 450,000 square foot confectionery plant. Begun in late 1980, this plant is located in Stuarts Draft, Virginia, 230 miles southwest of Hershey in the Shenandoah Valley. During 1981, construction of the plant proceeded on schedule and on budget. A highly competent management team has been assembled and is working full time on the planning, construction, and start-up of this new facility.

Despite a domestic shortage of peanuts in late 1980 and the first three quarters of 1981 due to a poor United States crop, the Company was able to meet the demand for its peanut-based products without any compromise in its high standards of quality. With the harvesting of the 1981-1982 crop, the peanut market returned to more normal levels of supply and price.

Throughout 1981, intensified effort was focused on productivity improvement, an area the Company has been concerned with for many years. The recent formalized approach to this important area has paid immediate dividends in short-term cost savings, in long-term improvements in procedures and efficiency, and in employee and managerial involvement.

HERSHEY CANADA INC.

In 1981, Hershey Canada Inc. attained record sales and significantly improved operating results. The 1981 sales gain included a substantial increase in tonnage, representing real growth. This volume increase was achieved even though standard bar retail prices were increased from 35¢ to 40¢. All major

segments of the Company's business—chocolate, grocery, and licorice—achieved real growth in 1981.

Hershey Canada's sales growth continues to be the result of the Company's successful new products program supported by increased marketing expenditures. In 1981, new products introduced in the last three years accounted for over 25% of total consumer sales. These new products include REESE'S PIECES—1981 was the first full year of national marketing for this brand; SPECIAL CRISP—the Canadian version of WHATCHAMACALLIT; REESE'S Crunchy Peanut Butter Cups; Y & S ALLSORTS; TOP SCOTCH—a butterscotch sundae topping; and BROWN COW—a chocolate syrup milk-modifier packaged in a plastic dispenser bottle.

Market share increases were recorded in most segments of the business during 1981. With the successful introduction of BROWN COW, Hershey Canada has significantly increased its total share of the milk-modifier market during the past two years. Increases were also significant in the total sundae topping category, and Y & S licorice volume continued strong in 1981. Since the 1979 integration of the Y & S brands into the Hershey operation, total licorice sales have increased by 60%.

With the exception of cocoa beans, all major commodity costs increased in 1981, and the continued weakening of the Canadian dollar further increased the cost of commodities imported into Canada. Accordingly, standard chocolate bar prices were increased so that they now retail at 40¢ in most Canadian outlets.

During 1981, Hershey's Canadian chocolate and confectionery operations were reorganized and transferred to a wholly-owned Canadian subsidiary company, Hershey Canada Inc. In addition, a new company headquarters office was opened in Toronto to house the entire administrative and financial staffs. Previously these groups had been divided between the Smiths Falls plant and a Toronto office. The move has resulted in significantly improved administrative control, communications, and other management efficiencies.



Real
CHOCOLATE

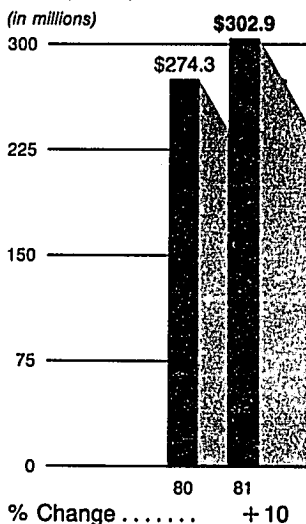
ALL NATURAL INGREDIENTS

semi-sweet
CHIPS

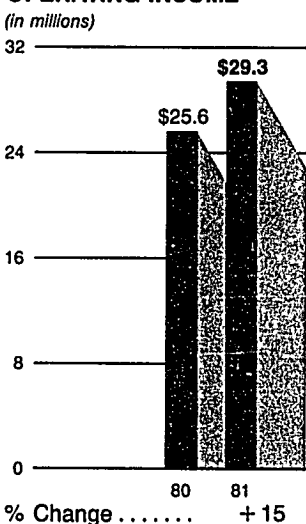
HERSHEY'S

Restaurant Operations

NET SALES



OPERATING INCOME



FRIENDLY ICE CREAM CORPORATION

Friendly Ice Cream Corporation's sales and earnings again reached record levels despite weakness in consumer spending for away-from-home eating and intensified advertising and promotional activity within the food service industry.

Sales gains in 1981 versus the previous year can be attributed principally to the continued modification of restaurants, new restaurant openings, and menu price increases. A breakfast sandwich promotion in the early part of 1981 together with ice cream promotions from June through the balance of the year also contributed to the sales achievement.

Operating income margins improved as a result of favorable commodity costs, productivity gains, and selected menu price increases.

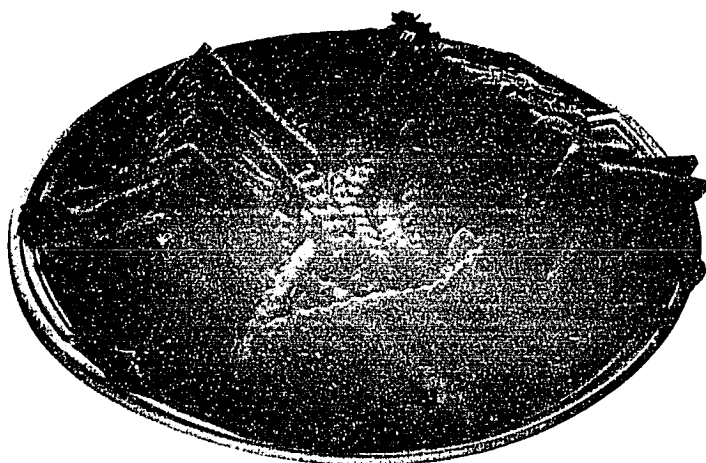
The cost of raw materials and products purchased by Friendly in the aggregate did not increase to expected levels. In the case of dairy products, this was the result of the Federal Government's decision to cancel the scheduled April 1 and October 1 support increases. The average prices of beef for hamburger, coffee and high fructose corn syrup were lower than in the previous year.

Friendly's marketing activities in 1981 were at their highest levels ever. Those activities having the most significant effect on the year's sales and earnings were television supported promotions relating to new breakfast sandwiches, and a series of ice cream offers.

The REESE'S PIECES Sundae was introduced during the summer ice cream promotional season and sold approximately one million units, making it one of the most popular sundaes ever offered by Friendly. During the summer of 1981, Friendly established new records for the production of ice cream and related products.

In 1981, a number of programs were initiated focusing on improved customer service at the restaurant level. One of these, designated The Hospitality Program, emphasizes to restaurant employees the importance of high quality service, a friendly attitude, excellence of product quality and high standards of personal appearance and housekeeping.

Numerous projects were undertaken in 1981 to improve productivity. For example, employee productivity groups known as Pride Circles were introduced at the manufacturing and distribution level of the operation and have met with considerable success. At the restaurant level,







more rigorous labor productivity performance standards have been established with excellent results.

As of December 31, 1981, there were 626 FRIENDLY restaurants in operation. This reflects the opening of 15 new restaurants, of which five were free-standing and ten were mall restaurants. During the year, eight restaurants were closed, and the nine JIM DANDY restaurants were sold.

The restaurant modification program has proceeded on schedule and continues to enhance sales through broadened menu selections, more comfortable seating, improved service systems, and a more attractive decor. A new restaurant building was designed to provide the same level of sales found in the current model Family Restaurants, but to cost significantly less to construct and to achieve productivity improvements with

respect to restaurant labor. Construction began on a number of these new model restaurants in late 1981, with the first units opened in early 1982.

A significant part of Friendly's success has been its quality image. This image was enhanced during 1981 as a result of national media attention to ice cream in general and specifically to Friendly's products. Constant attention to improving the quality of existing products is a Friendly hallmark.

A quality image is also enhanced through the introduction of innovative new products, and late in 1981, several new products comprising a variety of ice cream pies and cakes were placed into test market. A commitment to new product development will be an integral part of Friendly's future operations.

Other Food Products and Services

SAN GIORGIO-SKINNER COMPANY

The Pasta Division again reached record levels in sales and operating income, despite the fact that the pasta industry had a difficult year in 1981. A poor durum wheat crop in 1980-1981 resulted in substantial cost increases in semolina, the principal ingredient in quality pasta. The 1981-1982 durum crop, however, was at record levels, and the wheat quality is excellent.

In 1981, the SAN GIORGIO brand was the fastest growing brand in the industry. It accomplished this by obtaining greater market share in its existing geographic area. SKINNER, a leading brand in the Southwest and the Southeast, was expanded into the Iowa market during 1981.

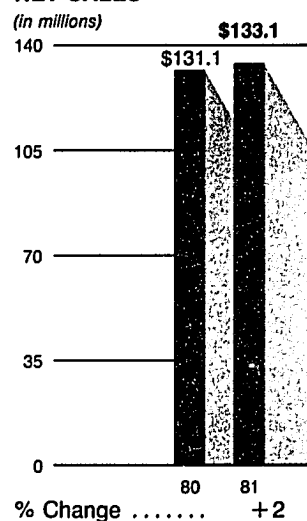
The Company made successful introductions of new items of the P & R brand, which continues to be a leading factor in New York State. The GOLD

MEDAL brand was repackaged and repositioned into the Southeast as an economy brand. Market acceptance to date has been good.

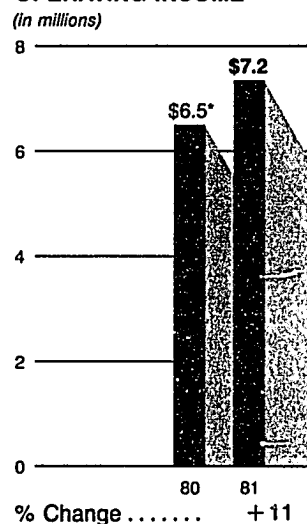
The pasta business, in common with much of the food industry, is seeing generic products gain an increasing share of sales at the expense of advertised brands. As part of an effort to counteract this trend, San Giorgio-Skinner produced a new commercial in 1981 entitled, "It's Silly to Skimp on Pasta." It reminds consumers that the lowest-cost macaroni is not always the best value because it may not be made from quality ingredients, deliver a superior texture, or possess other attributes associated with high quality.

The outlook for San Giorgio-Skinner in 1982 is favorable. To accommodate the growth in the Company's pasta business, a new production line was added to the Louisville, Kentucky plant, and additional

NET SALES



OPERATING INCOME



*Before a write-off of deferred location costs of Cory Food Services, Inc. in the amount of \$1.4 million





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warehousing space was purchased to support the Lebanon, Pennsylvania plant. In addition, increased macaroni and noodle production capacity will be added to the Lebanon facility in 1982.

CORY FOOD SERVICES, INC.

Cory's contribution to operating income improved over the previous year's positive results largely as a consequence of the lower cost of raw materials. While the customer base increased over 1980 levels, net sales declined slightly during 1981, primarily because the selling price of coffee kits was reduced in response to lower green coffee bean prices.

Inflation and the accompanying recession, the high rate of unemployment resulting in fewer office employees, and the trend toward decreased per capita consumption of coffee also hampered sales in Cory's basic line of business. Allied product sales such as teas, soups and canned juices, and the leasing of water treatment units, microwave ovens and compact refrigerator units showed growth and are expected to be expanded in the future. The National Account Program, which provides coffee service to large companies on a national account basis, also showed significant growth in 1981 and continues to be a key source of new customers.

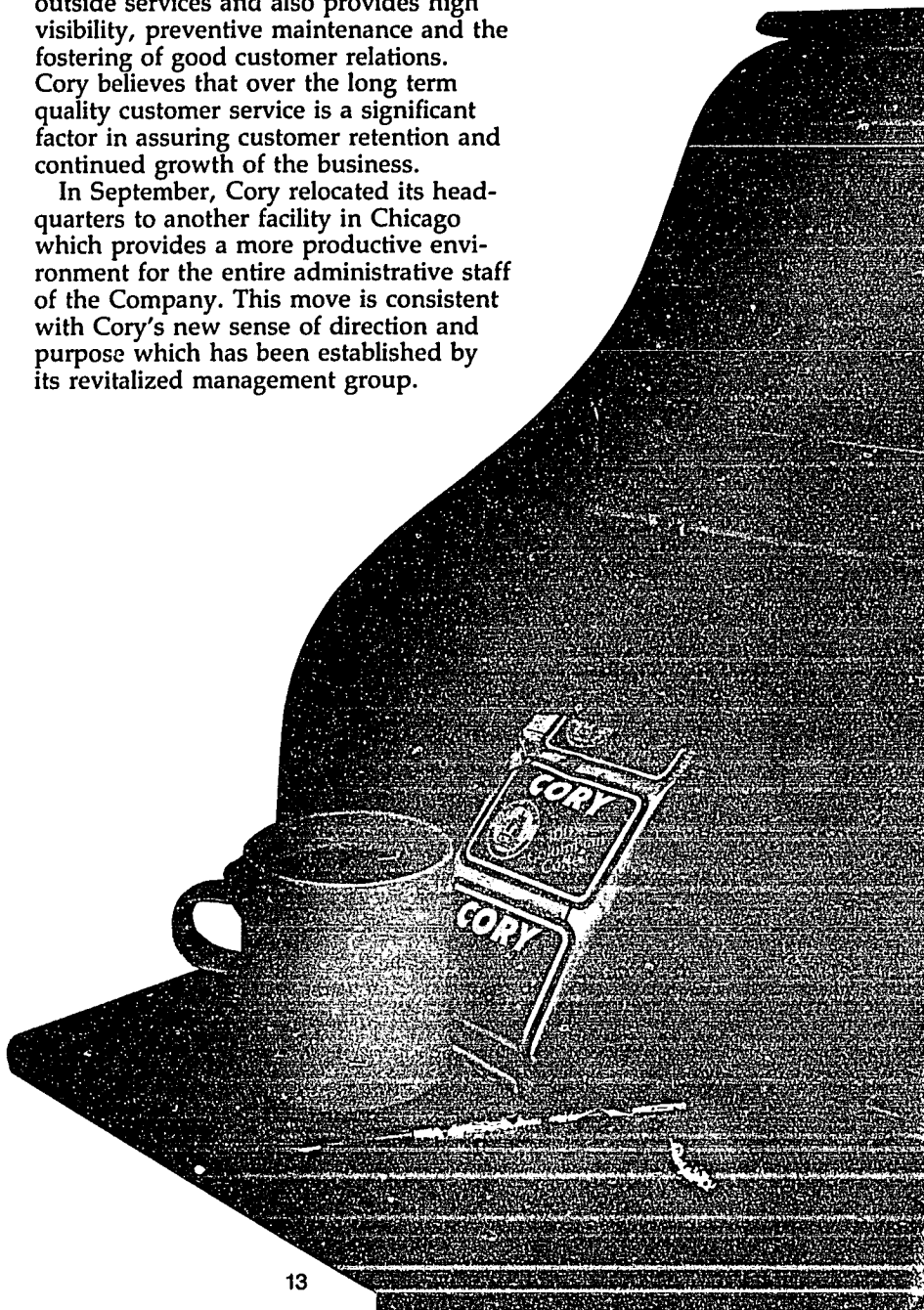
In response to the consumer trend toward coffee with less caffeine, CORY-LITE was introduced on a national basis in 1981. CORY-LITE is a partially-decaffeinated coffee marketed for its fresh-brewed taste and quality with only half the normal caffeine content. Also in mid-1981, Cory successfully test marketed and expanded into national distribution a new line of canned juices. This new product area offers a divergence from Cory's traditional line of water-additive beverages.

In April 1981, L. William Chiles was named President and Chief Executive Officer of Cory Food Services, Inc., succeeding Dr. Ogden C. Johnson, Hershey's Executive Vice President, who had been Acting President of Cory. Mr. Chiles brings to Cory a background of experience in productivity training, as well as sales and marketing expertise, all

of which are now being reflected in Cory's management philosophy and practices.

Increased emphasis will be placed on the management and performance of the sales function, overall employee productivity training, as well as the Cory Courtesy Service Program. The Cory Courtesy Service Program provides delivery of products by Cory personnel rather than outside services and also provides high visibility, preventive maintenance and the fostering of good customer relations. Cory believes that over the long term quality customer service is a significant factor in assuring customer retention and continued growth of the business.

In September, Cory relocated its headquarters to another facility in Chicago which provides a more productive environment for the entire administrative staff of the Company. This move is consistent with Cory's new sense of direction and purpose which has been established by its revitalized management group.



Other Corporate Activities

HERSHEY INTERNATIONAL LTD.

In 1981, Hershey took an important step in the development of its international business operations by grouping its non-Canadian international business interests into a new subsidiary company, Hershey International Ltd. The international business interests that are the responsibility of Hershey International Ltd. include operations in Mexico, Brazil, the Philippines, and Sweden, and export activities in Japan and numerous other overseas markets. This consolidation will further strengthen the overall monitoring, control, and reporting of international operations.

Despite the difficult economic conditions prevailing in many overseas markets, notably Brazil, Hershey's affiliated companies overseas and export operations continued their profitability in 1981. However, because of the continuing devaluation of the Brazilian cruzeiro, the profitability of the Company's Brazilian affiliates was below expectations in terms of U.S. dollars. The results of the Company's Swedish affiliate, AB Marabou, also were below last year's dollar contribution due to a softening in the Swedish chocolate and confectionery market as a result of the value-added tax and devaluation of the Swedish krona against the U.S. dollar.

In Mexico, Nacional de Dulces closed its plant operations in Mexico City and relocated to its new plant site in Guadalajara. As a result of the start-up phase, the plant experienced greater-than-normal operating expenses. Sales of Hershey and other confectionery products in Mexico reached a new high in 1981, but net income fell significantly below expectations.

The sales and earnings of Petybon/Codipra in Brazil increased substantially over the previous year. The Petybon biscuit and cookie line was revised and relaunched during the year with improved quality and attractive new packaging. Chadler's business results, although profitable, were less than 1980 because of lower prices for cocoa and derivative products on world markets and the continuing cruzeiro devaluation.

During the year, Hershey announced the formation of a joint venture with its licensee in the Philippines, the Philippine Cocoa Corporation. A 30% equity participation was acquired in this company, which holds the leading position in the Philippine chocolate and confectionery market. A key feature of Hershey's involvement there is the provision of technical assistance to improve cocoa growing and processing.

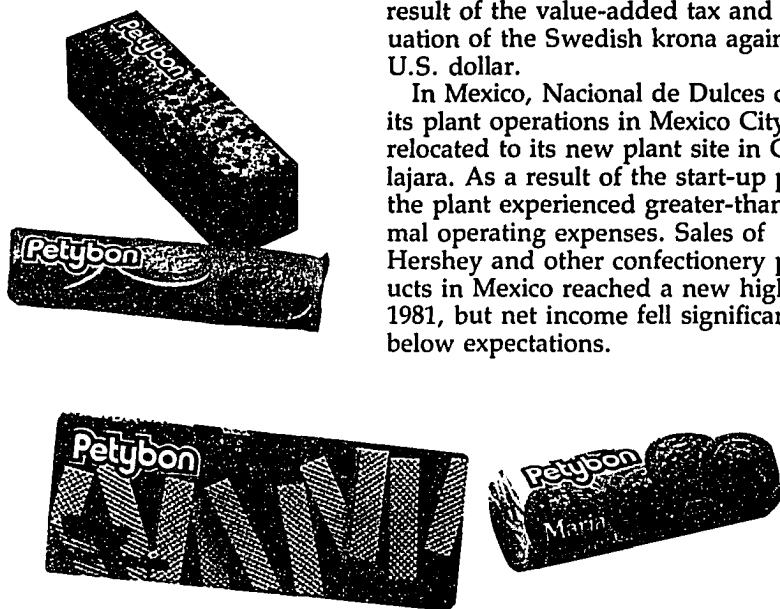
In 1981, the export sales and earnings of semi-processed and finished products increased substantially over the previous year. Japan continues to contribute importantly to the Company's total export sales. Other foreign markets are beginning to develop well and are now contributing more significantly to total results. This export effort coupled with continued exploration of new market entry opportunities remains a top priority for international business development.

CORPORATE ADMINISTRATIVE CENTER

During April 1982, more than 200 corporate staff employees will be relocated to new offices in the Corporate Administrative Center in Hershey. Upon completion of later phases of this project, the facility will be able to accommodate up to 400 employees.

Formerly the Hershey Community Center, the building was purchased by the Corporation in late 1979 to accommodate a growing corporate staff while freeing space for Hershey Chocolate Company's expanding administrative staff.

A physical fitness center, open to all employees of the Corporation, is included in the building, as is the



Hershey Theatre, which is leased for a nominal fee to the Hershey Educational and Cultural Center, a non-profit organization which presents major concerts and stage shows there.

The Hershey Community Center was built by Milton S. Hershey as part of his campaign to provide jobs for area residents during the Depression. It was begun in 1930 and completed in 1933.

Over the years the building housed a cafeteria, restaurant, junior college, library, little theatre and public television station, in addition to the main theatre, and the gymnasium, swimming pool and other recreational areas which have been renovated into an employee physical fitness complex.

During renovation every effort has been made to preserve the original design and character of this unique building, which is listed in the National Register of Historic Places.

HERSHEY'S CHOCOLATE WORLD

Hershey's Chocolate World, the Corporation's visitor center in Hershey, received more than 1.6 million visitors in 1981. A new weekly attendance record was set August 10-16, when 98,440 individuals took the automated tour. More than 13 million have toured the facility since it was opened in June 1973.

Chocolate World also set a sales record of approximately \$4.9 million, primarily in chocolate and Hershey-related gift items available in turn-of-the-century style shops and in refreshments sold in the expanded Hershey's Dessert Cafe.

The facility also generates revenue through mail order sales, royalties realized through a trademark licensing program, and wholesaling of gift items to specialty shops throughout the country under a program entitled "Hershey's Chocolate Memories."

Stockholders are encouraged to visit Hershey's Chocolate World when in the Hershey area. Hours are 9 a.m. to 4:45 p.m. daily except Thanksgiving, Christmas Eve, Christmas, and New Year's Day. Hours are extended during the summer months.

EXECUTIVE CHANGES

On April 1, *Dr. Ogden C. Johnson*, Vice President, Science and Technology and Acting President of Cory Food Services, Inc., was named Executive Vice President of the Corporation with responsibility for Cory Food Services, Inc.; San Giorgio-Skinner Company; Hershey Canada Inc.; and the Science and Technology functions of the Corporation. Dr. Johnson joined the Company in 1974 as Corporate Vice President of Scientific Affairs.

On the same date, *Dr. Barry L. Zoumas*, Director, Research and Development, was named Vice President, Science and Technology, to succeed Dr. Johnson. Dr. Zoumas came to Hershey as Manager, Nutritional Sciences, in 1971, was promoted to Director, Research, in 1976, and to his most recent position in 1978.

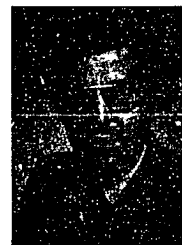
On April 15, *L. William Chiles* was named President of Cory Food Services, Inc. He formerly was Vice President, Sales and Marketing, for a midwestern company specializing in productivity, training and consulting services for corporations in all industries.

On July 1, *Richard M. Marcks*, Vice President, International, was named to the position of President of the newly formed company, Hershey International Ltd. Marcks came to Hershey in 1976 from Japan, where he was Vice President, Marketing, for a major international food company.

On December 1, *Kenneth L. Wolfe*, Vice President, Finance and Administration, Hershey Chocolate Company, was named Vice President, Finance and Chief Financial Officer of the Corporation. Wolfe joined Hershey in 1967 and was named Assistant Treasurer in 1968. He was promoted to Budget Director in 1969; Director, Operations and Financial Analysis, in 1974; and Treasurer of the Corporation in 1976. He was named to his most recent position in 1980.



O. C. Johnson



B. L. Zoumas



L. W. Chiles



R. M. Marcks



K. L. Wolfe

STOCK MARKET DATA

Hershey Foods Corporation had 16,817 stockholders at year-end 1981, with a total of 15,668,556 common shares outstanding. There is no other class of stock outstanding.

The common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 3,084,000 shares of the Company's common stock were traded on the Exchange during 1981. The closing price of the common stock on the New York Stock Exchange on December 31, 1981 was \$36.00.

The Company's common stock price range and dividends per share by quarter for the last two years appear on page 22.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE

Stockholders may take advantage of an automatic dividend reinvestment service offered through Manufacturers Hanover Trust Company. Quarterly common stock dividends are automatically reinvested in Hershey common stock, and optional cash investments may be made for the purchase of additional shares.

Several changes in the service have been made for 1982. Effective April 1, 1982, the limit on optional cash payments is raised from \$12,000 per annum to \$20,000 per annum, and the stockholder may invest the \$20,000 all at one time or periodically over the course of the year.

The investment by the Bank of all the optional cash payments will be made on the 15th day of each month, or first business day subsequent to that date.

A brochure describing this service is available from the Company's Investor Relations Department in Hershey or from the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P.O. Box 24850, Church Street Station, New York, N.Y. 10242.

CONSOLIDATION OF ACCOUNTS

Stockholders who add to their holdings of Hershey stock are advised to have their broker or bank register the shares in exactly the same name and account as

those of present holdings. Whenever there is the slightest variation in the name of a stockholder, a separate account must be established. This leads to duplicate mailings and added expense to the Company.

Anyone presently having more than one account registered in his or her name, can assist the Company by permitting consolidation. To combine such holdings, stockholders should forward the names and numbers of the accounts involved, along with a signed request, to Manufacturers Hanover Trust Company, Stock Transfer Department—Research, 4 New York Plaza, New York, N.Y. 10015.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held at 2 p.m. on Monday, April 26, 1982 at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue), in Hershey, Pa.

A formal notice of this meeting, together with a proxy statement, is being mailed to stockholders on or about March 11, 1982.

Stockholders who are unable to attend the meeting are urged to mark, sign, date and return their proxy card promptly so the stock of the Corporation will be represented as fully as possible at the meeting.

FORM 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Secretary of the Corporation, 100 Mansion Road East, Hershey, Pa. 17033.

INVESTOR SERVICES

The Corporation has an Investor Relations function in Hershey. Requests for interim and annual reports, or for more information about the Company, should be directed to the Investor Relations Department, Corporate Administrative Center, Hershey Foods Corporation, Hershey, Pa. 17033.

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The following comments relate to the results of operations for 1981 and 1980. The explanatory information should be read in conjunction with the Six-Year Financial Summary presented on page 36.

SALES AND EARNINGS

The Company experienced sales and earnings growth in 1981 and 1980. Consolidated net sales have increased since 1979 at a compounded growth rate of 11.8%, representing both volume and price increases.

Net income per common share has increased at a compounded growth rate of 21.8% during this period, primarily reflecting an increased gross profit margin on higher sales levels and decreased net interest expense. Gross profit margin improvements have resulted from production efficiencies and price increases. The costs of major commodities have remained relatively stable during the period, with decreases in cocoa bean and almond costs offsetting other commodity cost increases. The decrease in net interest expense reflects reduced average short-term borrowings resulting from increased levels of cash generated from operations and increased capitalized interest as a result of the construction of a new manufacturing facility.

1981

Consolidated net sales in 1981 increased \$115.9 million, an increase of 9% over 1980 consolidated net sales of \$1,335.3 million. This increase in consolidated net sales is attributable primarily to increased selling prices. Increased unit volume and increased selling prices were experienced in the Chocolate and Confectionery segment; however, increased selling prices accounted for the increase in the Restaurant Operations and Other Food Products and Services segments.

Net income increased \$18.3 million, or 30% over 1980. Gross profit margins increased from 27.2% in 1980 to 30.0% in 1981, contributing significantly to the net income increase. Improved gross profit margins reflect relatively stable commodity costs combined with manufacturing efficiencies and other productivity improvements. Gross profit increases were achieved in all industry segments. The selling, general and administrative increase of 19% primarily reflects higher selling and marketing expenses in response to the highly competitive markets in which the Company operates. Net interest expense decreased 11% in 1981 compared with 1980, reflecting reduced levels of short-term borrowings, increased capitalized interest and interest income. In addition, a lower effective income tax rate in 1981 resulted primarily from investment tax credits on a new manufacturing facility under construction.

Net income per common share amounted to \$5.61 compared with \$4.38 in 1980, an increase of 28%. The weighted average number of outstanding common shares increased from 14,159,801 in 1980 to 14,321,716 in 1981, reflecting the sale of 1,500,000 shares of common stock in a public offering on November 24, 1981.

1980

Consolidated net sales in 1980 increased \$174.0 million, an increase of 15% over 1979 consolidated net sales of \$1,161.3 million. Both increased selling prices and unit volume contributed to the increase, with the majority of the sales increase resulting from increased unit volume.

Net income increased \$8.6 million, or 16% over 1979. Improved gross profit margins contributed to the increase, with the gross profit margin percentage increasing to 27.2% from 26.4% in the prior year. Net interest expense decreased 21% in 1980 compared with 1979, reflecting reduced levels of short-term borrowings. This was offset somewhat by a higher effective income tax rate due primarily to the higher level of income before taxes. Net income per common share increased to \$4.38 in 1980 from \$3.78 in 1979, or 16%.

INDUSTRY SEGMENT INFORMATION

The Company operates in three industry segments: Chocolate and Confectionery, Restaurant Operations and Other Food Products and Services. The schedule on page 19 presents net sales, operating income, identifiable assets and other information for the

three industry segments. Operations in the Chocolate and Confectionery segment involve manufacture and sale of a full line of chocolate and confectionery products. The principal product groups sold are bar goods, bagged items, baking ingredients, chocolate drink mixes and dessert toppings. The Restaurant Operations segment is engaged in the operation of about 625 restaurants and the manufacture of certain items sold in those restaurants. The Other Food Products and Services segment is involved in the manufacture and sale of pasta products and the operation of a coffee service plan for businesses and institutions.

No customer, government or other entity accounts for 10% or more of sales. Inter-segment sales are not separately stated because such sales are not significant. Foreign sales and assets account for less than 10% of total sales and assets.

Identifiable assets are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, marketable securities, and corporate property and equipment.

For the Years Ended December 31 (in thousands of dollars)

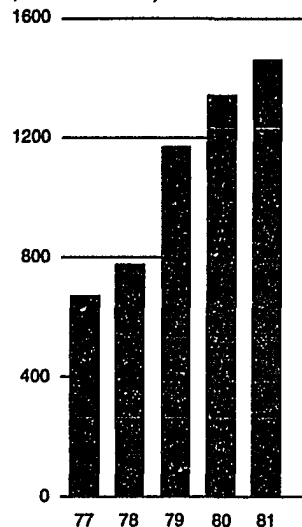
	1981	1980	1979
Net sales:			
Chocolate and Confectionery	\$1,015,106	\$ 929,885	\$ 822,813
Restaurant Operations	302,908	274,297	224,072
Other Food Products and Services	133,137	131,107	114,410
Total net sales	<u>\$1,451,151</u>	<u>\$1,335,289</u>	<u>\$1,161,295</u>
Operating income:			
Chocolate and Confectionery	\$ 142,658	\$ 118,435	\$ 99,880
Restaurant Operations	29,309	25,567	23,322
Other Food Products and Services	7,250	5,148 ^(a)	6,397
Total operating income	179,217	149,150	129,599
General corporate expenses	(11,763)	(10,190)	(7,742)
Interest expense (net)	(12,512)	(14,100)	(17,764)
Income before taxes	154,942	124,860	104,093
Less: Income taxes	74,580	62,805	50,589
Net income	<u>\$ 80,362</u>	<u>\$ 62,055</u>	<u>\$ 53,504</u>
Identifiable assets:			
Chocolate and Confectionery	\$ 445,815	\$ 333,232	\$ 297,296
Restaurant Operations	223,265	219,196	207,125
Other Food Products and Services	63,446	62,553	63,886
Corporate	74,274	69,491	38,892
Total identifiable assets	<u>\$ 806,800</u>	<u>\$ 684,472</u>	<u>\$ 607,199</u>
Depreciation:			
Chocolate and Confectionery	\$ 9,554	\$ 8,469	\$ 7,389
Restaurant Operations	14,379	13,015	10,283
Other Food Products and Services	2,675	2,671	2,185
Corporate	957	741	658
Total depreciation	<u>\$ 27,565</u>	<u>\$ 24,896</u>	<u>\$ 20,515</u>
Capital additions:			
Chocolate and Confectionery	\$ 57,504 ^(b)	\$ 27,061 ^(b)	\$ 29,472
Restaurant Operations	22,098	24,468	20,965
Other Food Products and Services	5,525	6,141	2,233
Corporate	6,546	1,359	3,767
Total capital additions	<u>\$ 91,673</u>	<u>\$ 59,029</u>	<u>\$ 56,437</u>

^(a) After a writeoff of deferred location costs of Cory Food Services in the amount of \$1.4 million.

^(b) Includes \$37.8 million in 1981 and \$6.5 million in 1980 for a new manufacturing facility currently being constructed.

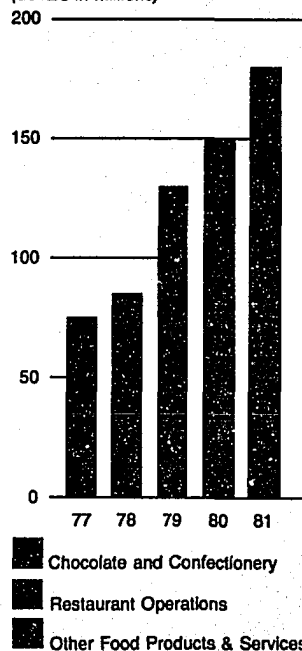
NET SALES BY INDUSTRY SEGMENT

(dollars in millions)



OPERATING INCOME BY INDUSTRY SEGMENT

(dollars in millions)



CHOCOLATE AND CONFECTIONERY

The Chocolate and Confectionery segment was the major contributor to consolidated net sales growth subsequent to December 31, 1979. In 1981, the segment had an increase of \$85.2 million, or 9% over 1980 segment sales. This followed an increase of \$107.1 million, or 13% in 1980 compared with 1979. Increased unit volume contributed more than half of the 1981 increase. The 1980 increase was attributable to both higher prices and increased unit volume, with growth in unit volume accounting for the majority of the increase.

Operating income in 1981 increased \$24.2 million, or 20% compared with 1980. Production efficiencies, lower unit weights of standard bars for a portion of the period and selected price increases contributed to an improvement in operating income margins. Lower cocoa bean and almond costs offset higher costs of other commodities, particularly sugar and peanuts. Selling and marketing expenses increased significantly because of expanded advertising and promotion programs.

In 1980, operating income increased \$18.6 million, or 19% compared with 1979. Lower cocoa bean and almond costs were partially offset by increases in costs of other commodities. In addition, increased productivity, together with weight and minor price changes, resulted in improved operating income margins.

RESTAURANT OPERATIONS

Net sales for the Restaurant Operations segment increased \$28.6 million, or 10% in 1981 compared with 1980. In 1980, net sales increased \$50.2 million, or 22% compared with 1979. The Restaurant Operations segment was acquired in January 1979 and, therefore, only eleven months of sales are included for that year. The increased sales in 1981 resulted from menu price increases, restaurant modifications, and new restaurant openings, although, in total, real sales declined slightly. The real sales volume decline is the result of current economic conditions which have adversely affected the restaurant industry in general. In 1980, both higher prices and increased real sales contributed about equally to the increase over 1979 net sales.

In 1981, operating income increased \$3.7 million, or 15% compared with 1980. Increases in selected menu prices, favorable commodity costs, and productivity improvements were the primary reasons for the increase in operating income.

Operating income in 1980 increased \$2.2 million, or 10% compared with the eleven months of operations in 1979. Operating margins were lower in 1980 than 1979 because of the inclusion in 1980 of January's results. January is generally a lower operating income month because of weather conditions.

OTHER FOOD PRODUCTS AND SERVICES

Net sales for the Other Food Products and Services segment in 1981 increased \$2.0 million, or 2% compared with 1980. In 1980, net sales increased \$16.7 million, or 15% compared with 1979. The increase in 1981 is attributable to higher prices within the pasta business as prices for the coffee service business were reduced to reflect lower coffee costs. Pasta price increases were implemented in late 1980 in response to increases in the cost of semolina milled from durum wheat, which is used in the manufacture of pasta. Unit volume decreased slightly in the segment as a result of lower consumption in the coffee service business and a decrease in tonnage in the pasta business. Both declines follow general industry trends in these areas. Further, in 1980, the increase in net sales was primarily attributable to higher prices.

Operating income in 1981 increased \$2.1 million, or 41% compared with 1980 which included a writeoff of \$1.4 million of deferred location costs of Cory Food Services, Inc. The operating income margin increase in 1981 is attributable to lower coffee costs and higher selling prices for pasta.

In 1980, operating income decreased \$1.2 million, or 20% compared with 1979. Operating income in 1980 was adversely affected by the writeoff of approximately \$1.4 mil-

lion of deferred location costs of Cory Food Services. The results for 1980 were also adversely affected by a 60% increase in the cost of semolina.

LIQUIDITY

Generally, the Company has been able to finance its annual working capital requirements through funds generated from normal business operations. However, at certain times during the year the Company has seasonal working capital needs which exceed funds generated from normal operations and, therefore, requires interim financing. These needs are met by issuing commercial paper and/or borrowing from commercial banks. Typically, the Company's seasonal needs for working capital peak during the summer months and the short-term borrowings are repaid in the fall.

Working capital was \$169.8 million at December 31, 1981, compared with \$109.7 million at December 31, 1980. The increase, which is reflected primarily in increased inventories and cash and short-term investments, is attributable to higher income and the receipt of \$53.1 million from the issuance of common stock. In 1981, the Company borrowed on a short-term basis to fund seasonal working capital requirements, but to a lesser extent than 1980 and 1979. In 1979, the Company used its short-term investments to finance, in part, the Friendly Ice Cream Corporation acquisition and issued \$75 million of 9½% Sinking Fund Debentures to finance the remainder. Working capital at December 31, 1979, was \$66.4 million.

The ratio of current assets to current liabilities was 2.4:1 at December 31, 1981; 2.0:1 in 1980 and 1.6:1 in 1979. The Company's accounts receivable and inventories generally have increased in proportion to sales growth. Inventories increased by \$38.2 million in 1981, representing additional requirements necessary for anticipated sales growth and commodity procurement activities.

At December 31, 1981, the Company's unused sources of funds consisted principally of \$54 million of cash and short-term investments and \$100 million currently available under its bank lines of credit which may be borrowed directly or used to support the issuance of commercial paper.

CAPITAL RESOURCES

Although the Company has generally met its capital expenditure requirements from internally generated funds, from time to time, it has supplemented these sources by using various long-term financing arrangements for major investment opportunities. In 1981, 1,500,000 common shares were issued in a public offering at \$37 per share to meet capital expenditure and working capital requirements. In 1980, the Company issued \$15 million of 10¾% Promissory Notes due 1983 through a private placement to finance, on an interim basis, the construction of a technical center and the purchase and renovation of an administrative office building in Hershey, Pennsylvania. In 1979, a portion of the acquisition of Friendly was financed by the issuance of \$75 million of 9½% Sinking Fund Debentures due 2009.

At December 31, 1981, the Company's principal capital commitment was for a confectionery manufacturing facility being constructed in Stuarts Draft, Virginia. Construction of the 450,000 square foot structure began in October 1980, and the facility is expected to be operational in late 1982. The cost of land, building and equipment is expected to be \$86 million. Additional production equipment being contemplated, if required, could increase the cost by as much as \$30 million. Expenditures through December 31, 1981, have amounted to \$44.3 million. It is anticipated that cash flow from operations and the existing cash and marketable securities balance will finance the capital expenditure requirements for 1982.

The Company's ratio of long-term debt to stockholders' equity was 34% in 1981, 44% in 1980 and 45% in 1979. The decrease in 1981 resulted from higher income and the issuance of 1,500,000 common shares.

For information with respect to the effect of inflation reference is made to pages 32 through 34.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Company's common stock were \$25.5 million in 1981 and \$21.2 million in 1980. The annual dividend rate was increased 18.8% in 1981 to \$1.90 per share from \$1.60 per share in 1980. This represents the seventh consecutive year of dividend increases for the stockholders. On February 16, 1982, the Company declared a regular quarterly dividend of \$.475 per share of common stock payable on March 15, to stockholders of record February 25. It is the Company's 209th consecutive regular dividend.

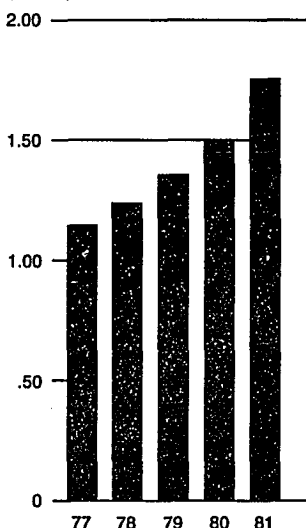
The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years.

		Dividends Paid Per Common Share	Common Stock Price Range*	
			High	Low
COMMON STOCK				
1981	First Quarter	\$.40	33¾	23⅛
	Second Quarter .....	.40	41	32½
	Third Quarter .....	.475	37⅝	32
	Fourth Quarter .....	.475	39	34
		<u>\$1.75</u>		
1980	First Quarter	\$.35	25⅜	20¼
	Second Quarter .....	.35	25⅛	20
	Third Quarter .....	.40	26	23½
	Fourth Quarter .....	.40	25¼	22
		<u>\$1.50</u>		

*NYSE Composite Quotations.

DIVIDENDS PER COMMON SHARE

(dollars)



(in thousands of dollars except per share amounts)

	For the Years Ended December 31		
	1981	1980	1979
Net Sales	<u>\$1,451,151</u>	<u>\$1,335,289</u>	<u>\$1,161,295</u>
Costs and Expenses:			
Cost of sales	<u>1,015,767</u>	<u>971,714</u>	<u>855,252</u>
Selling, administrative and general	<u>267,930</u>	<u>224,615</u>	<u>184,186</u>
Total costs and expenses	<u>1,283,697</u>	<u>1,196,329</u>	<u>1,039,438</u>
Income from Operations	<u>167,454</u>	<u>138,960</u>	<u>121,857</u>
Interest expense, net (Note 1)	<u>12,512</u>	<u>14,100</u>	<u>17,764</u>
Income before Taxes	<u>154,942</u>	<u>124,860</u>	<u>104,093</u>
Provision for income taxes (Note 2)	<u>74,580</u>	<u>62,805</u>	<u>50,589</u>
Net Income	<u>80,362</u>	<u>62,055</u>	<u>53,504</u>
 Retained Earnings at January 1	 <u>345,131</u>	 <u>304,316</u>	 <u>269,919</u>
Less—Cash Dividends	<u>25,504</u>	<u>21,240</u>	<u>19,107</u>
Retained Earnings at December 31	<u><u>\$ 399,989</u></u>	<u><u>\$ 345,131</u></u>	<u><u>\$ 304,316</u></u>
 Net Income per Common Share (Note 1)	 <u><u>\$ 5.61</u></u>	 <u><u>\$ 4.38</u></u>	 <u><u>\$ 3.78</u></u>
 Cash Dividends per Common Share	 <u><u>\$ 1.75</u></u>	 <u><u>\$ 1.50</u></u>	 <u><u>\$ 1.35</u></u>

The accompanying notes are an integral part of these statements.

	December 31	
	1981	1980
ASSETS		
Current Assets:		
Cash and short-term investments	\$ 53,879	\$ 48,906
Accounts receivable—trade (less allowances for doubtful accounts of \$2,792 and \$1,890)	56,241	45,964
Inventories (Note 1)	151,890	113,701
Other current assets	<u>25,020</u>	<u>12,796</u>
Total current assets	<u>287,030</u>	<u>221,367</u>
 Property, Plant and Equipment, at cost: (Notes 1 and 7)		
Land	46,592	42,682
Buildings	174,705	139,611
Machinery and equipment	358,446	316,421
Capitalized leases	<u>18,238</u>	<u>16,316</u>
	597,981	515,030
Less-accumulated depreciation and amortization	<u>157,797</u>	<u>135,589</u>
	<u>440,184</u>	<u>379,441</u>
 Excess of Cost Over Net Assets of Businesses Acquired (Note 1)		
	<u>53,911</u>	<u>55,214</u>
 Investments and Other Assets	 <u>25,675</u>	 <u>28,450</u>
	<u>\$806,800</u>	<u>\$684,472</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	<u>\$ 48,085</u>	<u>\$ 52,498</u>
Accrued liabilities		
Payroll and other compensation costs	23,916	20,566
Advertising and promotional expenses	14,415	6,381
Other	<u>18,702</u>	<u>13,468</u>
	57,033	40,415
Accrued income taxes	10,006	17,107
Current portion of long-term debt and lease obligations	<u>2,131</u>	<u>1,640</u>
Total current liabilities	<u>117,255</u>	<u>111,660</u>

Long-Term Debt (Note 4)	<u>141,202</u>	<u>142,730</u>
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Long-Term Lease Obligations (Note 7)	<u>16,980</u>	<u>16,028</u>
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Deferred Income Taxes (Note 2)	<u>61,699</u>	<u>52,504</u>
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Stockholders' Equity (Notes 1 and 5)

Common stock, without par value (stated value \$1 per share)—authorized 20,000,000 shares; outstanding 15,668,556 and 14,159,854 shares	15,669	14,160
Additional paid-in capital	54,006	2,259
Retained earnings	<u>399,989</u>	<u>345,131</u>
Total stockholders' equity	<u>469,664</u>	<u>361,550</u>
	<u>\$806,800</u>	<u>\$684,472</u>

The accompanying notes are an integral part of these balance sheets.

	For the years ended December 31		
	1981	1980	1979
Cash Provided			
Net income	\$ 80,362	\$ 62,055	\$ 53,504
Depreciation and amortization	29,168	26,378	21,568
Deferred income taxes	9,195	13,561	11,283
Working capital provided from operations	118,725	101,994	86,355
Change in components of operating working capital (except cash):			
Increase in inventories	(38,189)	(7,623)	(40,467)
Increase in receivables	(10,277)	(8,541)	(5,636)
Increase in accounts payable, accrued liabilities, and accrued income taxes	5,104	14,630	20,975
Other working capital components, net	(11,733)	(10,028)	6,377
Cash provided from operations	63,630	90,432	67,604
Common stock issued	52,953	—	—
Increase in long-term debt	—	15,000	75,000
Disposals of property, plant and equipment	3,440	4,393	1,854
Other	2,935	2,939	(1,423)
Total cash provided	122,958	112,764	143,035
Cash Applied			
Capital additions	91,673	59,029	56,437
Cash dividend's	25,504	21,240	19,107
Increase in investments	273	274	8,710
Reduction in long-term debt	535	500	7,600
Acquisition of Friendly Ice Cream Corporation (net of working capital acquired of \$18,248)	—	—	145,752
Total cash applied	117,985	81,043	237,606
Increase (Decrease) in cash and short-term investments	\$ 4,973	\$ 31,721	\$ (94,571)

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies employed by the Company. Accounting policies relating to income taxes and retirement plans are described in Notes 2 and 6, respectively.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions.

INVENTORIES

Substantially all of the Chocolate and Confectionery segment inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to \$97,320,000 in 1981 and \$64,711,000 in 1980. The remaining inventories are principally stated at the lower of "first-in, first-out" (FIFO) cost or market. Year-end inventories at FIFO costs, which approximates current cost, are presented below.

	December 31 1981	1980
(in thousands of dollars)		
Raw materials	\$103,245	\$106,260
Goods in process	25,268	30,230
Finished goods	105,357	81,338
Inventories at FIFO	233,870	217,828
Less: adjustment to LIFO method	81,980	104,127
Total inventories	<u>\$151,890</u>	<u>\$113,701</u>

PROPERTY, PLANT AND EQUIPMENT

The Company provides straight-line depreciation for buildings and machinery and equipment. Property, plant and equipment balances include Construction in Progress in the amount of \$63,400,000 at December 31, 1981, and \$20,700,000 at December 31, 1980. Certain leases are capitalized at the present value of future minimum lease payments and are amortized using the straight-line method over the related lease terms.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED

The excess of the acquisition cost over the fair value of the net assets of businesses acquired is being amortized on a straight-line basis over a period of forty years. The excess relating to certain acquisitions made prior to November 1, 1970, is carried at cost until such time as there may be evidence of diminution.

ACQUISITION

In 1979, the Company acquired all of the outstanding common stock of Friendly Ice Cream Corporation for approximately \$164,000,000. The excess of the acquisition cost over the fair value of the assets acquired and liabilities assumed was \$39,789,000. Had the results of Friendly been included with the consolidated results of operations for the entire year for 1979 the effect would not have been material.

DEVELOPMENT AND PROMOTION EXPENSES

The costs of research and development (\$5,352,000 in 1981, \$4,504,000 in 1980 and \$3,569,000 in 1979) and advertising and promotion (\$123,244,000 in 1981, \$100,088,000 in 1980, and \$76,077,000 in 1979) are expensed in the year incurred.

NET INCOME PER COMMON SHARE

Net income per common share has been computed based on the weighted average number of shares of common stock outstanding during the year (14,321,716 in 1981, 14,159,801 in 1980 and 14,152,955 in 1979).

INTEREST EXPENSE

Interest expense-net is comprised of the following:

	1981	1980	1979
(in thousands of dollars)			
Interest on long-term debt	\$13,163	\$12,637	\$12,748
Interest on capitalized leases	1,644	1,413	1,282
Other interest	3,700	3,105	6,275
Capitalized interest	(3,216)	(958)	(881)
	15,291	16,197	19,424
Less-interest income	2,779	2,097	1,660
	<u>\$12,512</u>	<u>\$14,100</u>	<u>\$17,764</u>

2. INCOME TAXES

The provision for Federal and state income taxes is based on income as reported in the financial statements. Deferred income taxes are provided for the tax effect of timing differences resulting primarily from the use of accelerated depreciation for income tax purposes. The provision for income taxes has been reduced by allowable investment and other tax credits.

The provision for income taxes exceeds taxes currently payable by \$9,195,000 in 1981, \$13,561,000 in 1980 and \$11,283,000 in 1979. The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate.

	1981		1980		1979	
	Amount	%	Amount	%	Amount	%
(in thousands of dollars)						
Taxes computed at statutory rate	\$71,273	46.0	\$57,436	46.0	\$47,883	46.0
Increase (reductions) resulting from:						
State income taxes, net of						
Federal income tax benefits	6,801	4.4	5,522	4.4	4,552	4.4
Investment tax credit	(5,959)	(3.8)	(3,428)	(2.7)	(3,680)	(3.5)
Nondeductible expenses relating to acquisitions	2,554	1.6	2,567	2.1	2,074	2.0
Other, net	(89)	(.1)	708	.5	(240)	(.3)
Provision for income taxes	<u>\$74,580</u>	<u>48.1</u>	<u>\$62,805</u>	<u>50.3</u>	<u>\$50,589</u>	<u>48.6</u>

3. SHORT-TERM DEBT

As a result of seasonal working capital requirements, the Company maintained lines of credit arrangements with commercial banks, under which it could borrow up to \$100 million in 1981 and \$150 million in 1980 at the lending banks' prime commercial interest rate or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Company. There were no borrowings under these lines of credit at December 31, 1981, or December 31, 1980.

The average outstanding short-term debt under both lines of credit and commercial paper during 1981 and 1980 was \$19,683,000 and \$28,851,000, respectively, with a weighted average interest rate of 17.4% and 10.7%, respectively. The average amount outstanding during the period was computed by dividing the sum of total daily borrowings by the number of days in the year. The weighted average interest rate during the period was computed by dividing the actual interest expense by the sum of the total daily borrowings converted to an annual rate. The maximum amount of short-term borrowings by the Company at any month-end was \$59,501,000 in 1981 and \$73,609,000 in 1980.

These lines of credit are supported by commitment fee and/or compensating balance arrangements. The fees range up to ½% per annum of the commitment. While there are no compensating balance agreements which legally restrict these funds, the Company generally maintains compensating balances of up to 5% of borrowings under these lines of credit and generally not less than 2.5% of commitments.

4. LONG-TERM DEBT

Long-term debt at December 31, 1981 and 1980 consisted of the following:

	1981	1980
(in thousands of dollars)		
10¼% Promissory Notes due 1983	\$ 15,000	\$ 15,000
8.7% Senior Notes due 1992	20,000	20,000
7¼% Sinking Fund Debentures due 1997	23,595	25,500
Less Debentures repurchased	(1,095)	(2,060)
6% Industrial Revenue Bonds due 2000-2005	4,000	4,000
9½% Sinking Fund Debentures due 2009	75,000	75,000
Other obligations	4,702	5,290
	<u>\$141,202</u>	<u>\$142,730</u>

Annual Sinking Fund payments of \$1,500,000 are required on the 7¼% Debentures. Annual payments of \$2,000,000 begin in 1983 on the 8.7% Senior Notes. Annual Sinking Fund payments of \$3,000,000 begin in 1985 for the 9½% Debentures.

The aggregate annual payments of long-term debt, net of repurchased debentures of \$1,095,000 for 1982 and exclusive of capitalized lease obligations are as follows: 1982, \$1,036,000; 1983, \$19,360,000; 1984, \$3,891,000; 1985, \$6,791,000; 1986, \$6,772,000.

5. COMMON STOCK

On November 24, 1981, the Company issued 1,500,000 common shares at \$37 per share in a public offering, resulting in net proceeds, before deduction of \$192,000 of expenses payable by the Company, of \$53,145,000. Additionally, other common shares were issued in 1981 under the Company's Management Incentive Plan and in 1980 when the last remaining stock options from a previous acquisition were exercised. A summary of the Common Stock and Additional Paid-In Capital transactions is presented below:

	Number of Common Shares	Common Stock	Additional Paid-in Capital
	(in thousands of dollars)		
Balance, January 1, 1980	14,159,160	\$14,159	\$ 2,255
Exercise of stock options	694	1	4
Balance, December 31, 1980	14,159,854	14,160	2,259
Management Incentive Plan awards	8,702	9	294
Issuance of common shares	1,500,000	1,500	51,453
Balance, December 31, 1981	<u>15,668,556</u>	<u>\$15,669</u>	<u>\$54,006</u>

6. RETIREMENT PLANS

The Company and its subsidiaries have several non-contributory retirement plans covering substantially all salaried and full-time hourly employees. Costs are computed and funded on the basis of accepted actuarial methods and include current service costs of all plans and the amortization of past service costs.

The total pension expense was \$13,200,000 in 1981, \$10,440,000 in 1980 and \$8,469,000 in 1979, which includes amortization of past service costs over principally 15 years in 1981 and 30 years in 1980 and 1979.

Changes during 1981 in the principal amortization period of past service costs to principally 15 years from 30 and changes in interest, salary rate and other assumptions used in computing pension cost are the primary reasons for the increase in pension expense for 1981. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans as of the date of the most recent actuarial valuation is as follows:

	January 1 1981	1980
(in thousands of dollars)		
Actuarial present value of accumulated plan benefits:		
Vested	\$108,314	\$98,568
Non-vested	8,442	4,699
	<u>\$116,756</u>	<u>\$103,267</u>
Market value of net assets available for benefits	<u>\$ 93,893</u>	<u>\$ 73,846</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 8%.

7. LEASE COMMITMENTS

Capitalized leases relate primarily to certain restaurant facilities leased by the Restaurant Operations segment.

Total rent expense for all other leases was \$12,051,000 in 1981, \$10,340,000 in 1980 and \$10,106,000 in 1979. Other leases pertain principally to certain restaurants, warehouses, and transportation equipment.

Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1981, are as follows:

	Capital Leases	Other Leases
(in thousands of dollars)		
1982	\$ 2,770	\$ 4,792
1983	2,690	3,747
1984	2,703	3,155
1985	2,622	2,604
1986	2,595	2,201
1987 and beyond	19,762	11,426
Total minimum lease payments	<u>\$33,142</u>	<u>\$27,925</u>

The total minimum lease payments under capital leases include \$14,535,000 of imputed interest.

8. SUMMARY OF QUARTERLY DATA (unaudited)

The following table presents net sales, gross profit, net income and net income per common share for each quarter of the past two years.

(in thousands of dollars except per share amounts)

Year 1981	First	Second	Third	Fourth	Year
Net sales	\$383,241	\$296,439	\$386,786	\$384,685	\$1,451,151
Gross profit	106,513	87,080	118,466	123,325	435,384
Net income	<u>\$ 21,133</u>	<u>\$ 14,376</u>	<u>\$ 23,889</u>	<u>\$ 20,964</u>	<u>\$ 80,362</u>
Net income per common share	<u>\$ 1.49</u>	<u>\$ 1.02</u>	<u>\$ 1.68</u>	<u>\$ 1.42</u>	<u>\$ 5.61</u>
Year 1980	First	Second	Third	Fourth	Year
Net sales	\$331,759	\$283,958	\$343,993	\$375,579	\$1,335,289
Gross profit	82,961	77,343	94,221	109,050	363,575
Net income	<u>\$ 13,253</u>	<u>\$ 11,743</u>	<u>\$ 17,841</u>	<u>\$ 19,218</u>	<u>\$ 62,055</u>
Net income per common share	<u>\$.94</u>	<u>\$.83</u>	<u>\$ 1.26</u>	<u>\$ 1.35</u>	<u>\$ 4.38</u>

9. INDUSTRY SEGMENT AND EFFECTS OF INFLATION

Industry segment information and unaudited information regarding the effects of inflation are shown on pages 18 and 19, and 32 through 34, respectively.

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Company believes its system provides an appropriate balance in this regard. The Company maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 27, 1981. Their report expresses an opinion that the Company's financial statements are fairly stated in conformity with generally accepted accounting principles. Their examinations were performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

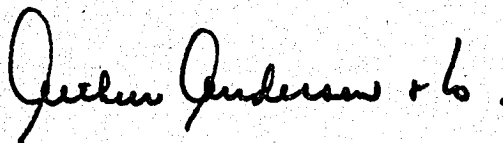
The Audit Committee of the Board of Directors of the Company, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors, and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

To the Stockholders and Board of Directors of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1981, and 1980, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1981, and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.
February 12, 1982



The Company's consolidated financial statements are prepared based upon the historical prices in effect when the transactions occurred. The following supplementary information reflects certain effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices", issued by the Financial Accounting Standards Board.

The effects of inflation on income have been measured in two ways as described below and presented in the following statements. The first method, "constant dollar", measures the effect of general inflation determined by using the 1981 average Consumer Price Index for all Urban Consumers (CPI-U) to recompute results of operations. The second method, "current cost", is more specific to the Company in that it measures inflation by recomputing results of operations using the current costs of inventory and property, plant and equipment rather than the historical costs of such assets. Current costs of property, plant and equipment were developed from external price indices, quotations or similar measurements.

The inflation-adjusted information presented may not necessarily be comparable with other companies within the same industry because of differences in assumptions and judgments. However, of the two methods required, the Company believes the current cost method is more meaningful because it better measures the effects of inflation on Company operations.

Depreciation expense increased under both methods, reflecting the effects of inflation. Current cost depreciation exceeds constant dollar depreciation because increases in the Company's specific cost of property, plant and equipment have exceeded the general inflation rate. Both methods reflect costs of property, plant and equipment currently used in operations. However, the Company will avail itself of the latest technological improvements when actual replacement occurs.

The adjustment to current cost of sales is not significant as substantial portions of inventories in the historical financial statements are stated at LIFO cost. Under LIFO cost, current costs are included in cost of sales in the historical financial statements. During 1981, the cost of certain non-LIFO commodities used by the Company decreased. As a result, the current cost of sales is only slightly higher than the historical cost of sales.

The statement shows that the historical effective income tax rate for 1981 of 48.1% increases under both methods since Federal Income Tax Regulations do not provide for a tax deduction for these inflation adjustments.

The gain from decline of purchasing power of net amounts owed set forth in the following schedule presents the Company's gain from holding more monetary liabilities (requiring fixed future cash settlements) than monetary assets (right to receive fixed amounts of future cash) during periods of inflation, thereby requiring less purchasing power to satisfy such future obligations. However, since this gain will not be realized until the obligations are repaid, it is excluded from net income.

FIVE-YEAR COMPARISON

The five-year comparison on page 34 shows the effect of adjusting historical net sales, dividends per common share, market price per common share, net assets and other information, to dollar amounts expressed in terms of average 1981 dollars, as measured by the average CPI-U. After adjustment for inflation, net sales have increased 44% from 1977 through 1981, while dividends paid in 1981 are 41% and 38% of earnings per share when stated in constant dollar and current cost amounts, respectively.

In 1981, the increase in specific prices of inventories and property, plant and equipment was less than the increase in general inflation as measured by the CPI-U. Specific price increases exceeded the increase in general inflation in 1980 and 1979. The increase in specific prices compared with general inflation increases has changed annually since costs for agricultural commodities often do not follow the trend of general inflation. Comparisons of other amounts for years prior to 1979 were neither readily available nor required by Statement No. 33.

For the Year Ended December 31, 1981 (in thousands of dollars)

	As Reported in the Primary Statement (historical dollars)	Adjusted for General Inflation (constant dollar)	Adjusted for Changes in Specific Prices (current cost)
Net sales	<u>\$1,451,151</u>	<u>\$1,451,151</u>	<u>\$1,451,151</u>
Cost of sales	990,318	997,380	990,526
(excluding depreciation)			
Selling, administrative and general expenses	265,814	265,814	265,814
(excluding depreciation)			
Depreciation expense	27,565	39,637	42,565
Interest expense—net	<u>12,512</u>	<u>12,512</u>	<u>12,512</u>
Income before taxes	154,942	135,808	139,734
Income taxes	74,580	74,580	74,580
Net income	<u>\$ 80,362</u>	<u>\$ 61,228</u>	<u>\$ 65,154</u>
Effective tax rate	48.1%	54.9%	53.4%
Gain from decline of purchasing power of net amounts owed		<u>\$ 21,551</u>	<u>\$ 21,551</u>
Decrease in specific prices of inventories and property, plant and equipment held during the year (see Note)			\$ (17,082)
Effect of increase in general price level of inventories and property, plant and equipment			<u>68,073</u>
Excess of increase in general price level over decrease in specific prices			<u>\$ 85,155</u>

Note—At December 31, 1981, current cost of inventory was \$231.1 million and current cost of property, plant and equipment, net of accumulated depreciation was \$716.5 million.

(in thousands of average 1981 dollars, except per share amounts)

	1981	1980	1979	1978	1977
Net sales					
As reported	\$1,451,151	\$1,335,289	\$1,161,295	\$ 767,880	\$ 671,227
In constant dollars	1,451,151	1,473,795	1,455,091	1,070,473	1,007,395
Income from continuing operations					
As reported	\$ 80,362	\$ 62,055	\$ 53,504	\$ 41,456	\$ 36,031
In constant dollars	61,228	50,223	49,332		
At current cost	65,154	47,644	53,554		
Income per share from continuing operations					
As reported	\$ 5.61	\$ 4.38	\$ 3.78	\$ 3.02	\$ 2.62
In constant dollars	4.28	3.55	3.49		
At current cost	4.55	3.36	3.78		
Dividends per common share					
As reported	\$ 1.75	\$ 1.50	\$ 1.35	\$ 1.225	\$ 1.14
In constant dollars	1.75	1.66	1.69	1.71	1.71
Market price per common share at year-end					
As reported	\$ 36.00	\$ 23.50	\$ 24.63	\$ 20.63	\$ 19.88
In constant dollars	34.84	24.77	29.18	27.69	29.09
Net assets at year-end					
As reported	\$ 469,664	\$ 361,550	\$ 320,730	\$ 284,389	\$ 259,668
In constant dollars	733,163	622,651	588,224		
At current cost	831,698	833,743	802,107		
Excess of increase in general price level over decrease in specific prices	\$ 85,155	\$ (198)	\$ (27,053)		
Gain from decline in purchasing power of net amounts owed	\$ 21,551	\$ 30,127	\$ 33,317		
Average Consumer Price Index (1967 = 100)	272.4	246.8	217.4	195.4	181.5

CAPITAL ADDITIONS

Capital additions, including capitalized interest and capitalized leases, in 1981 amounted to \$91.7 million compared with \$59.0 million in 1980 and \$56.4 million in 1979. Capital additions, including those at Friendly since January 1979, amounted to \$272.1 million during the past five years.

The Chocolate and Confectionery segment additions accounted for \$57.5 million or 63% of the 1981 total spending compared with \$27.1 million or 46% in 1980. Other additions during the year, in addition to the new manufacturing facility, include installation of chocolate liquor milling equipment, automation of peanut butter cup lines and various other projects.

The Restaurant Operations segment accounted for \$22.1 million or 24% of the 1981 total spending compared with \$24.5 million or 41% in 1980. Approximately 51% of the restaurant spending was for 15 new restaurants with the majority of the remaining portion for modification of existing restaurants and other improvements.

The Other Food Products and Services segment accounted for \$5.5 million or 6% of the 1981 total spending compared with \$6.1 million or 10% in 1980. Additions during 1981 included purchase of a warehouse and installation of pasta manufacturing lines.

Corporate additions of \$6.5 million or 7% of the 1981 total spending are represented primarily by the renovation of an administrative office building in Hershey.

Depreciation expense and amortization of leasehold improvements and capitalized leases for 1981 through 1979 amounted to \$27.6 million, \$24.9 million and \$20.5 million, respectively.

RETURN ON STOCKHOLDERS' EQUITY

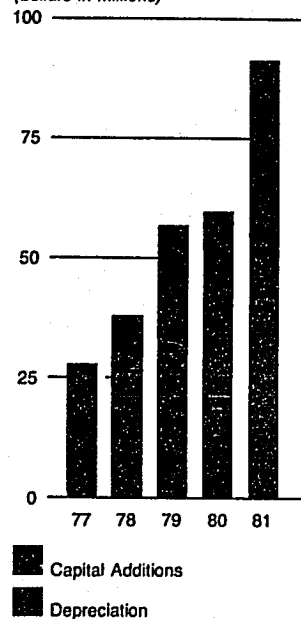
The Company has increased consolidated net sales, net income and assets over the most recent five-year period and has also improved the return on stockholders' equity. The return on average stockholders' equity has ranged from 15.2% in 1978 to 19.3% in 1981. The 1981 return incorporates the effect of the \$53 million of additional stockholders' equity resulting from the issuance of 1,500,000 shares of common stock.

RETURN ON INVESTED CAPITAL

The Company's after-tax return on average invested capital during the five-year period has been maintained in the range of 12.8% to 14.3% and was 13.9% in 1981. Average invested capital consists of the average of beginning and end-of-year balances in long-term debt and lease obligations, deferred income taxes and stockholders' equity. Earnings on invested capital is the sum of net income and the after-tax effect of interest on long-term debt.

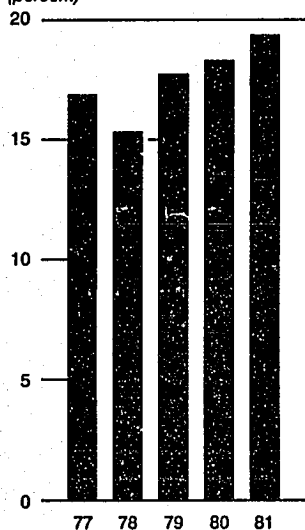
CAPITAL ADDITIONS AND DEPRECIATION

(dollars in millions)



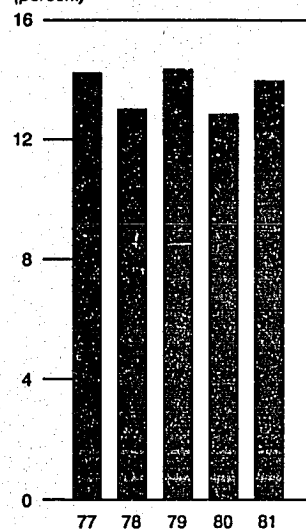
RETURN ON AVERAGE STOCKHOLDERS' EQUITY

(percent)



AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL

(percent)



HERSHEY FOODS CORPORATION AND SUBSIDIARIES

(all dollar and share amounts in thousands except market price and per share statistics)

	1981	1980	1979	1978	1977	1976
Summary of Earnings						
Continuing Operations						
Net Sales	\$1,451,151	1,335,289	1,161,295	767,880	671,227	601,960
Cost of Sales	\$1,015,767	971,714	855,252	560,137	489,802	417,673
Operating Expenses	\$ 267,930	224,615	184,186	128,520	110,554	94,683
Interest Expense	\$ 15,291	16,197	19,424	2,620	2,422	2,240
Interest (Income)	\$ (2,779)	(2,097)	(1,660)	(5,303)	(2,931)	(1,883)
Income Taxes	\$ 74,580	62,805	50,589	40,450	35,349	45,562
Income from Continuing Operations	\$ 80,362	62,055	53,504	41,456	36,031	43,685
Income from Discontinued Operations	\$ —	—	—	—	—	1,112
Gain Related to Disposal of Discontinued Operations	\$ —	—	—	—	5,300	—
Net Income	\$ 80,362	62,055	53,504	41,456	41,331	44,797
Income Per Common Share						
Continuing Operations	\$ 5.61	4.38	3.78	3.02	2.62	3.18
Discontinued Operations	—	—	—	—	—	.08
Gain Related to Disposal	—	—	—	—	.39	—
Net Income	\$ 5.61	4.38	3.78	3.02	3.01	3.26
Cash Dividends Per Common Share	\$ 1.75	1.50	1.35	1.225	1.14	1.03
Average Number of Common Shares and Equivalents Outstanding During the Year	14,322	14,160	14,153	13,742	13,722	13,720
Percent of Income from Continuing Operations to Sales	5.5%	4.6%	4.6%	5.4%	5.4%	7.3%

Financial Statistics

Capital Additions	\$ 91,673	59,029	56,437	37,425	27,535	20,722
Depreciation	\$ 27,565	24,896	20,515	8,850	7,995	7,539
Advertising	\$ 56,516	42,684	32,063	21,847	17,637	13,330
Current Assets	\$ 287,030	221,367	170,250	216,659	221,202	169,872
Current Liabilities	\$ 117,255	111,660	103,826	74,415	83,149	47,309
Working Capital	\$ 169,775	109,707	66,424	142,244	138,053	122,563
Current Ratio	2.4:1	2.0:1	1.6:1	2.9:1	2.7:1	3.6:1
Long-Term Debt and Lease Obligations	\$ 158,182	158,758	143,700	35,540	29,440	29,440
Debt-to-Equity Percent	34%	44%	45%	13%	11%	13%
Stockholders' Equity	\$ 469,664	361,550	320,730	284,389	259,668	233,529
Total Assets	\$ 806,800	684,472	607,199	422,004	396,153	331,870
Return on Average Stockholders' Equity	19.3%	18.2%	17.7%	15.2%	16.8%	20.5%
After-Tax Return on Average Invested Capital	13.9%	12.8%	14.3%	13.0%	14.2%	17.1%

Stockholders' Data

Outstanding Common Shares at Year-End	15,669	14,160	14,159	13,745	13,730	13,720
Market Price of Common Stock						
At Year-End	\$ 36	23½	24⅝	20⅝	19⅞	22⅜
Range During Year	\$ 41-23⅛	26-20	26½-17⅝	23½-18½	22⅝-16⅝	27½-18½
Number of Common Stockholders at Year-End	16,817	17,774	18,417	18,735	19,694	20,421

Employees' Data

Payrolls	\$ 273,097	253,297	227,987	112,135	99,322	88,848
Number of Full-Time Employees at Year-End	12,450	12,430	11,700	8,100	7,660	7,670

Hershey Foods Corporation

1981 PRELIMINARY REPORT



Friendly waitresses look over the new Friendly Restaurant menu which offers significant product improvements as well as several new items.

INVESTOR INFORMATION

Closing Market Price—
Common Stock: 36
(at December 31, 1981)

NYSE—Composite Quotations:

High/Low Price Range:	High	Low
First Quarter 1981	33¾	23½
Second Quarter 1981 ...	41	32½
Third Quarter 1981	37½	32
Fourth Quarter 1981	39	34

NYSE—Composite Trading Volume:

First Quarter	
1981	750,000 Shs.
Second Quarter	
1981	1,022,000 Shs.
Third Quarter	
1981	603,000 Shs.
Fourth Quarter	
1981	710,000 Shs.

Latest Quarterly Dividend Payment:

Dec. 15, 1981 \$.475 Per Share

Next Regular Dividend Payment:

March 15, 1982 .. \$.475 Per Share

Current Annual Dividend Rate:

\$1.90 Per Share

EXECUTIVE OFFICES

100 Mansion Road East
Hershey, PA 17033

NEW MENU INTRODUCED

Responding to consumer research and the advice of its restaurant personnel, Friendly is introducing a new menu featuring several new items and many significant product improvements. This improved menu will unify all Friendly restaurants' menus and enhance Friendly's position as a leader in quality and value.

The new menu layout and design highlight Friendly's quality ice cream and sandwiches. Some of the product improvements include a "bigger" BIG BEEF hamburger sandwich, more ice cream in selected ice cream products and a specially designed doily to improve Friendly's ice cream presentations.

On the new product side, the REESE'S PIECES Sundae has been added to the permanent lineup of ice cream offerings. Most restaurants will also feature a "regular" three ounce hamburger to better satisfy customers who do not want a large hamburger or simply prefer a less expensive meal.

This menu and the significant product improvements reflect Friendly's commitment to maintain its position and reputation for providing quality and value to its customers.

SALES AND EARNINGS

Hershey Foods Corporation on February 16, 1982, announced record consolidated sales and earnings for the year 1981. Net sales for the year were \$1,451,151,000 compared with \$1,335,289,000 in 1980. Net income for the year was \$80,362,000 compared with \$62,055,000 in 1980.

Earnings per share increased to \$5.61 per common share in 1981 compared with \$4.38 per common share in 1980. In 1981, the average number of shares outstanding for the year was 14,321,716, reflecting the November 1981 stock offering in which 1,500,000 shares of the Company's common stock were sold to the public. This compares with the average of 14,159,801 shares outstanding in 1980.

Net sales for the fourth quarter of 1981 were \$384,685,000 compared with \$375,579,000 for the fourth quarter of 1980. Net income for the quarter was \$20,964,000, or \$1.42 per common share, compared with \$19,218,000, or \$1.35 per common share, for the same period in 1980. The earnings per share for the fourth quarter of 1981 also reflect the impact of the November 1981 stock offering.

"We are particularly pleased with our fourth quarter results, especially in view of the strong results posted by the Company in the fourth quarter of 1980," said William E. C. Dearden, Vice Chairman and Chief Executive Officer. "During the fourth quarter of 1980, we experienced an unusually strong business surge which continued into the first quarter of 1981, while the fourth quarter of 1981 followed the more traditional patterns of our businesses.

"In 1981, the Company's overall performance was excellent despite the unsettled economy and vigorous competitive activity in all of our businesses,"
(continued on page 2)

DIVIDEND

The Board of Directors of Hershey Foods Corporation on February 16, 1982, declared a regular quarterly dividend of \$.475 per share on the common stock. The dividend is payable March 15, 1982, to stockholders of record February 25, 1982. It is the 209th consecutive regular dividend.



Kenneth L. Wolfe

EXECUTIVE CHANGE

Kenneth L. Wolfe was promoted to Vice President, Finance and Chief Financial Officer of Hershey Foods Corporation, William E. C. Dearden, Vice Chairman and Chief Executive Officer of the Corporation, announced on December 4, 1981.

Wolfe joined Hershey Foods in 1967 and was named Assistant Treasurer in 1968. He was promoted to Budget Director in 1969 and Director, Operations and Financial Analysis in 1974. In 1976 he was elected Treasurer of the Corporation and was named Vice President, Finance and Administration of the Hershey Chocolate Company in 1980.

A native of Lebanon, Pa., he holds a bachelor's degree in American Studies from Yale University, and a master of business administration degree in finance from the University of Pennsylvania. Prior to joining Hershey Foods, he worked for Bankers Trust Company, New York. Wolfe is also active in the community, serving on the local Boards of both the United Way and the American Automobile Association.

CHANGES IN DIVIDEND REINVESTMENT SERVICE

On April 1, 1982, Hershey Foods Corporation will effect several changes in the automatic dividend reinvestment service available to owners of Hershey common stock through its transfer agent, Manufacturers Hanover Trust Company. These changes reflect the Company's continuing interest in further upgrading the reinvestment service and broadening the investment opportunities available to its stockholders.

Once a stockholder has received the first Statement of Account following enrollment in the Plan, he or she has the option of investing additional cash payments which the Bank will use to buy more Hershey shares for that particular account. Under the new Plan, the limit on optional cash payments is raised from \$12,000 per year to \$20,000 per year. The stockholder may invest the \$20,000 annual maximum all at one time or periodically over the course of the year.

Also effective April 1, 1982, the Bank will invest all the optional cash payments it receives on a monthly basis, on the 15th day of each month, or first business day subsequent to that date, thereby reducing the non-interest earning period.

The stockholder's participation in the Automatic Dividend Reinvestment Plan is entirely voluntary and may be terminated at any time.

For further information regarding the Automatic Dividend Reinvestment Service, write to the Bank at the following address: Manufacturers Hanover Trust Company, Dividend Reinvestment Department, P.O. Box 24850, Church Street Station, New York, New York 10242.

COMMON STOCK OFFERING

Hershey Foods Corporation on November 6, 1981, filed with the Securities and Exchange Commission a registration statement covering the proposed public offering of 1,500,000 shares of the Company's common stock. Subsequently on November 18, 1981, the stock was offered to the public at \$37 per share.

The closing of the successful offering took place on November 24, 1981, when the underwriting group co-managed by Merrill Lynch White Weld Capital Markets Group and Goldman, Sachs & Co. delivered to Hershey the proceeds of the offering in the form of a check for \$53,145,000.

The net proceeds from the sale of the common stock were added to the general funds of the Company to meet capital expenditure and working capital requirements. The principal capital requirement at present is the new major confectionery plant under construction in Virginia. The cost of land, building and equipment is expected to be \$86 million. Additional production equipment being contemplated, if required, could boost the cost of this project by as much as \$30,000,000.

During the period November 18-24, the Company's management undertook a series of meetings in New York, Chicago, Hartford and Boston to assist in the marketing of the stock by updating the investment communities in those locations on the Company's activities and financial performance.

SALES AND EARNINGS

(continued from page 1)

Dearden continued. "Hershey Chocolate Company's performance was outstanding, and Friendly Ice Cream Corporation also achieved healthy sales and earnings increases. In addition, San Giorgio-Skinner and Cory both made important contributions to the sales and earnings record of the Company.

"The Company's net income performance was particularly strong as

higher operating margins were achieved by all operating units. The margin improvements reflected increased sales, stabilized raw material costs, manufacturing efficiencies and other productivity improvements. These improvements were accomplished despite a significant increase in our marketing expenditures, especially during the fourth quarter," Dearden concluded.

SUMMARY OF CONSOLIDATED INCOME STATEMENTS

(In thousands of dollars except per share amounts)

	For the Quarter Ended December 31,		For the Years Ended December 31,	
	1981	1980	1981	1980
Net Sales	\$384,685	\$375,579	\$1,451,151	\$1,335,289
Costs and Expenses	<u>342,071</u>	<u>333,062</u>	<u>1,283,697</u>	<u>1,196,329</u>
Income From Operations	42,614	42,517	167,454	138,960
Interest Expense—Net	<u>1,898</u>	<u>2,483</u>	<u>12,512</u>	<u>14,100</u>
Income Before Taxes	40,716	40,034	154,942	124,860
Provision for Income Taxes	<u>19,752</u>	<u>20,816</u>	<u>74,580</u>	<u>62,805</u>
Net Income	<u>\$ 20,964</u>	<u>\$ 19,218</u>	<u>\$ 80,362</u>	<u>\$ 62,055</u>
Net Income per Common Share (Note)	<u>\$ 1.42</u>	<u>\$ 1.35</u>	<u>\$ 5.61</u>	<u>\$ 4.38</u>

NOTE: Average common shares outstanding were 14,809,005 for the quarter ended December 31, 1981, versus 14,159,801 for the quarter ended December 31, 1980, and 14,321,716 for the year ended December 31, 1981, versus 14,159,801 for the year ended December 31, 1980.

CONSOLIDATED BALANCE SHEETS

December 31

(In thousands of dollars)

ASSETS	1981	1980	LIABILITIES AND STOCKHOLDERS' EQUITY	1981	1980
Current Assets	\$287,030	\$221,367	Current Liabilities	\$117,255	\$111,660
Property and Equipment (Net)	440,184	379,441	Long-Term Debt	158,182	158,758
Excess of Cost Over Net Assets of Businesses Acquired	53,911	55,214	Deferred Income Taxes	61,699	52,504
Other	<u>25,675</u>	<u>28,450</u>	Stockholders' Equity	<u>469,664</u>	<u>361,550</u>
	<u>\$806,800</u>	<u>\$684,472</u>		<u>\$806,800</u>	<u>\$684,472</u>

PRODUCTIVITY: WE ALL HAVE A PART TO PLAY

by Kenneth B. Kwiat

*Vice President, Manufacturing and General Manager, Lebanon plant
San Giorgio-Skinner Company*

In the world of business and government today, there is much emphasis placed on the state of the economy. Businessmen, politicians and indeed all Americans are aware of the effect of inflation on our lives. To that end, productivity is seen as the key to stemming the tide of inflation.

Much attention is being paid to those countries where productivity is increasing at a more rapid rate than our own, and much concern is being voiced at the decline of productivity in America.

There are many opinions and attitudes toward productivity. A recent publication by a professor of management at Penn State University indicates "the missing link" to increased output is the first-line supervisor—whether in manufacturing, sales, or administration. The professor stresses that the supervisor should be well prepared for leadership and motivation.

Kansas State University performed a study, which was subsequently confirmed by AT&T, indicating that employees' attitudes toward top management have a more significant impact on productivity than those attitudes formed at the work level.

The Nashua Corporation and Buick emphasize the point of worker involvement. They say the worker is the key to problem solving.

We have here, then, three different concepts, each targeting a different area as the key to improving productivity. Which is correct? Probably all of them.

Company concept

The concept of productivity is not new to San Giorgio-Skinner nor to Hershey Foods. As an entire corporation, Hershey Foods' strategic plan identifies productivity as a major effort in all phases of the business. The approach is one that addresses itself to improvement in four key areas: capital, key physical resources, time, and people.

San Giorgio-Skinner has also addressed the issue of productivity in its planning process. The objective of our division is to achieve and maintain a low-cost, full-line pasta manufacturing operation and to establish measurements for and to achieve a high level of productivity performance in all other segments of divisional operations.

Our strategies

To accomplish this objective, there are several strategies that have been incorporated. The first deals with the use of capital investment. San Giorgio-Skinner has developed an ambitious capital plan to meet its growth expectations and to improve operating efficiencies. Both of these objectives are directly related to improving productivity.

The second deals with a cost reduction program. The program involves various projects that address all areas of the business from Sales and Marketing through Distribution and Manufacturing, as well as Finance and Administration. A typical project is increasing the effectiveness of our marketing expenditures through an evaluation of advertising, trade promotions and pricing strategy.

Others are decreasing distribution costs through good facilities planning, reducing energy costs, and reducing waste in our raw materials. Examples in the areas of Finance and Administration are the increased use of micro-processing equipment and conversion of our data processing equipment to more efficient and less costly systems.

The third strategy involves people. In the coming years there will be a heavier involvement of all our people in the business through the "Care Circle" approach. The "Care Circle" approach is one which very closely approximates the quality circles that have been so successful for Japanese companies and which are gaining momentum in American business today.

PRIDE CIRCLES, CARE CIRCLES SOLVE PROBLEMS

In a growing number of national companies, face-to-face communications programs among employees are making a positive impact upon productivity, quality control and employee relations.

Both Friendly Ice Cream Corporation and San Giorgio-Skinner Company have embarked on their own versions of a communications program. Friendly calls them "Pride Circles," San Giorgio-Skinner titles them "Care Circles." Although the names are different, the philosophy behind them is quite similar—

creating a more participative style of management that opens the channels between management and the rest of the workforce to aid in problem-solving.

In both companies, the circles consist of small groups of employees representing certain departments who meet regularly to identify problems and offer solutions.

Friendly started its Pride Circle program at its Wilbraham, Massachusetts headquarters. The first generation of Pride Circles involve the company's Ice Cream, Meat and Receiving Departments. A Friendly Receiving employee commented, "People who do the job are an excellent source of input. Who knows the job better than the person doing it?" Also, Friendly's Restaurant Operations Department is encouraging its employees to get involved in productivity projects at their restaurant units.

The chairman of Friendly's productivity program, Joe Henningsen, observes an overall improvement in employee relations. "People have become attached not only to the goals of their Pride Circle, but to larger goals of the company. And people are gaining a better recognition of their own contributions to the organization."

Says Kenneth Kwiat, Vice President and General Manager of San Giorgio-Skinner's Lebanon Plant, where the first Care Circle has begun: "Our Care Circles represent a philosophy of trust in workers, of allowing them to become more intimately involved in the work process." He adds the program is also a commitment to providing capital resources, to employees' growth and development, to the building of teamwork and improved overall communication.

Both circle programs are already expanding. Seven more Friendly Pride Circle groups are in the works. At San Giorgio-Skinner, it is planned by year end to have at least five Care Circles operational in the Lebanon Plant, plus startups in the Company's Louisville, Omaha and Hershey Headquarters facilities.

Directors and Officers

BOARD OF DIRECTORS

Harold S. Mohler

Chairman of the Board

William E. C. Dearden

*Vice Chairman of the Board
and Chief Executive Officer*

Richard T. Baker

Consultant and Former

*Managing Partner, Ernst & Whinney,
certified public accountants*

Robert J. Gaudrault

Chairman of the Board

Friendly Ice Cream Corporation

(Retires April 1, 1982)

John C. Jamison

*Partner, Goldman, Sachs & Co.,
investment bankers, New York, N.Y.*

Francine I. Neff

*Vice President and Director, NETS Inc.,
privately held investment company,
Albuquerque, N. M.*

Philip A. Singleton

President

*Singleton Associates International, industrial
consultants, Amherst, Mass.*

Louis C. Smith

Vice President

Earl J. Spangler

President, Hershey Chocolate Company

John C. Suerth

*Director and Member, Executive Committee,
Gerber Products Company, manufacturer of
food and infant care products, Fremont, Mich.*

Richard A. Zimmerman

President and

Chief Operating Officer

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Richard T. Baker, *Chairman*

John C. Jamison

Francine I. Neff

COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE

John C. Suerth, *Chairman*

John C. Jamison

Philip A. Singleton

EMPLOYEE BENEFIT COMMITTEE

Philip A. Singleton, *Chairman*

Richard T. Baker

John C. Suerth

EXECUTIVE COMMITTEE

Harold S. Mohler, *Chairman*

William E. C. Dearden

Richard A. Zimmerman

NOMINATING COMMITTEE

Francine I. Neff, *Chairperson*

William E. C. Dearden

Harold S. Mohler

CORPORATE OFFICERS

Harold S. Mohler

Chairman of the Board

William E. C. Dearden

*Vice Chairman of the Board
and Chief Executive Officer*

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President and

Chief Operating Officer

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Executive Vice President

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Vice President,

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Louis C. Smith

Vice President

Charles A. Smylie

Vice President,

Administration

William F. Suhring

Vice President,

Corporate Development

Kenneth L. Wolfe

Vice President,

Finance and Chief

Financial Officer

Dr. Barry L. Zoumas

Vice President,

Science and Technology

William Lehr, Jr.

Secretary and Treasurer

Michael F. Pasquale

Controller

